New York State Department of Financial Services
Premium Rate Approval – Decision Summary

Insurer: Empire HealthChoice HMO, Inc.
Filing Type: Rate Adjustment pursuant to Section 4308(c)
Effective Date: April 1, 2012
SERFF Tracking Number: AWLP-127621762
Lines of Business: Small Group HMO Product
Affected Members: 31,500
Earned Premiums: $196 M
Rating Structure: Quarterly Rolling Rates

Summary:

Requested	Approved	Reduction
19.0%	8.9%	-10.1%

The rate actions above are on a year over year basis. The approved quarterly rate actions are -0.3% from 1Q12 to 2Q12 and +3.0% in subsequent quarters.

The analysis included the following "requested" versus "approved" assumptions of the various parts of the application:

		Requested	Approved
1.	Annual Claim Trend Rates	12.4%	12.4%
2.	Administrative Expense Ratio	7.1%	7.1%
3.	Profit Objective (percent of premium, pre-tax)	5.9%	2.75%
4.	Medical Loss Ratio (MLR)	87.0%	90.15%

The modified rates are due to (1) a reduction of profit objective and (2) an adjustment for the morbidity from the to-be discontinued Prism EPO products migrating to the HMO product.

Analysis:

The Department reviewed the material that Empire submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, profit objectives, and the development of the needed rate change, as well as comparisons to similar historical data in each of these areas. The Department also considered the insurer's overall solvency and ability of the insurer to meet its obligations after the Department's decisions.

Claims Trend Rates:

Empire assumed a claims trend of 12.4%. Empire did not provide a breakdown of the components of its trend calculation (unit cost, utilization, etc.), but the Department is assuming that the claim trend rate includes all components of claim trends. Based on the data submitted and industry averages, the Department finds Empire's 12.4% annual claim trend to be reasonable.

Administrative Expense Ratio:

Empire assumed an administrative expense ratio of 7.1%. The requested ratio incorporates the impact of the changes in commission rules recently introduced by Empire. This ratio is generally lower than illustrated in Empire's financial statements. The Department therefore finds this ratio to be reasonable and acceptable.

Profit Objective:

Empire requested a pre tax profit objective of 5.9% (as a ratio to premiums). The Department finds that a profit objective of 2.75% of premiums is reasonable, which would produce a return on equity (ROE) of approximately 12% on a 20% surplus to premiums ratio.

Medical Loss Ratio (MLR):

With the administrative expense ratio of 7.1% and a profit ratio of 2.75%, Empire's projected loss ratio will be 90.15%.

Standardized Premiums:

In order the accurately reflect past premium increases that have not yet gone into effect, the Department "standardizes" the premiums requested. Actual premiums earned during the previous calendar year are adjusted to include premium increases that were subsequently approved but not reflected as actual premiums earned.

The Department finds the requested ratios of standardized premiums [1Q12] to actual earned premiums to be reasonable and acceptable.

Merging of Claims Experience for HMO Product and for EPO Prism Product:

As of September 2011, there are 31,500 members under HMO product and 135,000 members under EPO Prism product. In calendar year 2008, the situation was reversed, with 179,000 members under HMO product and 94,000 members under EPO Prism product.

While the EPO Prism product is very similar to the HMO product, the morbidity level for EPO Prism members is about 12.5% better than for the HMO members.

Empire is discontinuing all options under the EPO Prism product beginning in April 2012, and many of these options will migrate to the HMO product. The Department therefore finds that it is reasonable that the rate actions for HMO product be determined on a blend of the HMO membership and 20% of the EPO Prism membership.

Decision:

Based on its review and analysis described above, the Department finds that the requested increases are unreasonable and modifies the requested rates as summarized in the chart above.

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Filing Type:	Rate Adjustment pursuant to Section 4308(c)
Effective Date:	April 1, 2012
SERFF Tracking Number:	AWLP-127621762
Lines of Business:	Healthy New York Product
Affected Members:	53,500
Earned Premiums:	$185 M
Rating Structure:	Non-Rolling Rate Structure-All

<u>Summary</u>:

Requested	Approved	Reduction
20.3%	17.8%	-2.5%

All Healthy New York plans renew on April 1, 2012.

The analysis included the following “requested” versus “approved” assumptions of the various parts of the application:

		Requested	Approved
1.	Annual Claim Trend Rates	12.4%	11.0%
2.	Administrative Expense Ratio	8.6%	8.6%
3.	Profit Objective (percent of premium, pre-tax)	3.2%	2.75%
4.	Medical Loss Ratio (MLR)	88.2%	88.65%

The modified rates are due to (1) a reduction of the annual claim trend factor and (2) a reduction of profit objective.

<u>Analysis</u>:

The Department reviewed the material that Empire submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, profit objectives, and the development of the needed rate change, as well as comparisons to similar historical data in each of these areas. The Department also considered the insurer’s overall solvency and ability of the insurer to meet its obligations after the Department’s decisions.

<u>Claims Trend Rates</u>:

Empire assumed a claims trend of 12.4%. Empire did not provide a breakdown of the components of its trend calculation (unit cost, utilization, etc.), but the Department is assuming that the claim trend rate includes all components of claim trends. Based on the data submitted and industry averages, the Department finds Empire's 12.4 % annual claim trend rate for the Small Group HNY product to be unreasonable. The Department therefore approves an annual claim trend ratio of 11.0%, which is more consistent with experienced trend rates on overall HNY experience in downstate counties.

Administrative Expense Ratio:

Empire assumed an administrative expense ratio of 8.6%. The requested ratio incorporates the impact of the changes in commission rules recently introduced by Empire. This ratio is generally lower than illustrated in Empire's financial statements. The Department therefore finds this ratio to be reasonable and acceptable.

Profit Objective:

Empire requested a pre tax profit objective of 3.2% (as a ratio to premiums). The Department finds that a profit objective of 2.75% of premiums is reasonable, which would produce a return on equity (ROE) of approximately 12% on a 20% surplus to premiums ratio.

Medical Loss Ratio (MLR):

With the administrative expense ratio of 8.6% and a profit ratio of 2.75%, Empire's projected loss ratio will be 88.65%.

Standardized Premiums:

In order the accurately reflect past premium increases that have not yet gone into effect, the Department "standardizes" the premiums requested. Actual premiums earned during the previous calendar year are adjusted to include premium increases that were subsequently approved but not reflected as actual premiums earned.

The Department finds the requested ratios of standardized premiums [April 2011] to actual earned premiums to be reasonable and acceptable.

Decision:

Based on its review and analysis described above, the Department finds that the requested increases are unreasonable and modifies the requested rates as summarized in the chart above.